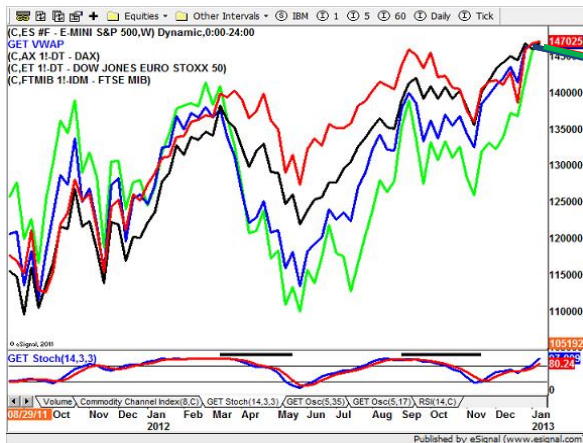


Big Picture report

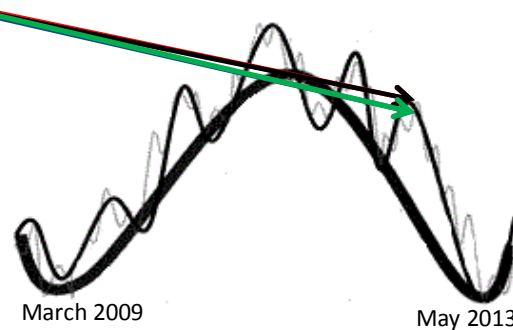
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*“Quantitative approach for
asymmetric results”*



Market cycle based on technical analysis



Source: Pring, Technical Analysis Explained p.16

□ **Overall picture:** beginning of the year with sharp upward movement for equities, not supported with typical and expected intermarket responses. This movement looks like in shape and steepening as a final corrective leg of an $\delta abc\delta$ pattern. Possible that we are witnessing instead a fresh new upward movement, but as of now too early to call. The above market cycle chart is still correct, because higher prices are anyway achieved with less and less strength: between the two, the strength doesn't lie. Commodities more bearish. Gold seems to be creating a bottom now.

□ (red line) **US Equities:** recently broke September's high, next resistance is 1,500 future points. From any time frame from monthly and below the index is in overbought situation.

□ **VIX:** after completing the $\delta abc\delta$ pattern changed direction dramatically. Previous low important support.

□ **EUR/USD:** next resistance is at 1.347. The exchange rate broke a number of resistances but it is too early to call it trend inversion.

□ **European equities:** strongest market is the FTSE Mib which can be seen the steep movement in the chart above. (Dax is the black line, Eurostoxx the blue and FTSE Mib the green one)

□ **Japan:** continuation of the short term trend expected, but the Japanese index is inserted in a very tight channel.

□ **Gold and Silver:** After breaking the wedge both are pulling back, in a typical wave 2 fashion. Longs now have probably the best risk/return profile.

□ **Commodities (DJ UBS Index):** the chart here is still the same despite the differences that occurred in basically all the above charts. Therefore commodities are not supportive of this latest upward movement, which raises more than one question.

Each topic has been studied as a stand-alone analysis. No conclusions have been drawn on one instrument, as a consequence of an analysis of another one. The idea of a Big Picture report is to see whether putting together all these stand-alone analysis, an overall trend is forming or not.

SP500 future weekly chart



The index inverted vigorously the first week of January and since then, is continuing in its upward trend which already resulted in the breaking of September's high at 1,468. New highs achieved with less strength (see the oscillator and the purple arrow) are not supportive of this trend. Last week's candle is a continuation one, so possible achieving the 1,500 threshold anytime soon. Be aware that change of this short term trend can happen unexpectedly and fast.

VIX Index weekly chart



After completing the *öabcö* pattern volatility changed direction and yet again, it is close to all time low. On the opposite side here, VIX is achieving same low with less and less weakness, casting more than one doubt on recent equities (and VIX) behavior.

EURUSD weekly chart



The Exchange rate is either continuing giving us false signals or it is anticipating a continuation of the upward trend for equities. The above was last report's comment. Last week's candle is a continuation one therefore new highs should be expected, next resistance is at 1.347. Similar to equities: shape and steepening. The indicator below is a CCI 50 periods, which is currently giving us signal that the exchange rate is in the overbought territory. Confirmation of the breaking of current upward trend is the violation of the purple support.

Eurostoxx 50 future weekly chart



European index in overbought since November now, no sign of inversion as last week's candle is a continuation one. Possible achieving the 2,742 future points as it is the next resistance. Shorts positions welcome (not before) with the violation of the purple support.

Ftse Mib future weekly chart



No trend inversion in sight but just more overbought. Last week's candle is a continuation one so new highs should be expected. However the wedge formation is calling for attention on new longs. Breaking of the purple support may be a sign of change in trend.

Bund future weekly chart



Bund closed the gap and now it is interesting to see which direction it will take. Target of the bearish head and shoulder has not been achieved, but last week's candle is a continuation one so at least breaking of last week low should be expected. Together with equities, Bund is the only other instrument which calls for waiting for events to unfold in order to take a long term action.

Gold future weekly chart



Gold is now completing a minor wave 2 of the nascent upward wave (5). If that will be the case, using Fibonacci's extension it is worth looking at some possible ending values for subsequent wave 3,4 and 5. For few weeks Gold is just sideways, but important to safeguard the current support. Indicators are neutral.

Dow Jones UBS Commodity index weekly chart



Commodities are not supporting the exuberance that we see in equities. Neckline of the bearish head and shoulder has been broken. Just wait and see if that will be confirmed or only a bear trap.

Copper future weekly chart



No major news on Copper, only a higher low which may signal a change in trend. More confirmation of such change only with the breaking of previous high. Indicators are in neutral position.

Nikkei 225 index weekly chart



The Japanese index broke the horizontal resistance at 9,260 points and did a breathless run up for nine straight weeks.

In the space of less than two months broke the large bearish channel in which has been comfortably for more than thirty-six months. That is impressive.

Last week's candle is not an inversion, but an indecision one, and breaking last week's low would probably bring the index to test again the (former) resistance at 9,260 points. **Such level is to me a threshold between continuation of the upward trend or, if broken, resuming the downward trend.** Overbought situation in place.

SP500 and Copper futures weekly chart



Interesting as ever, Copper is signaling that the latest run up of the SP500 is not supported by the real economy: the (current) double top of the equity index is not copied by the metal, which has a lower high.

Interestingly enough this chart is the same if we plot the Nasdaq instead of Copper.

Nasdaq is underperforming the SP500 which is another signal of caution with long positions.

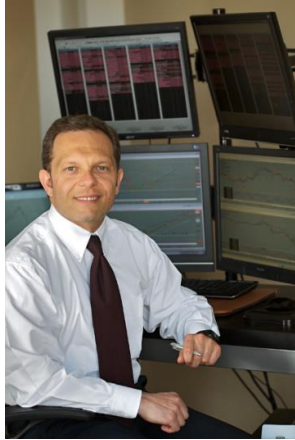
SP500 / Gold ratio weekly chart



The Sp500/Gold ratio is giving signals that the decision is clearly to move outside the previous (purple) channel, and therefore it calls for considering the change in strategy, to the new Buy SP500 sell Gold.

However patience is mandatory, especially because the ratio seems to merely test again the lower line of the upward (light blue) channel in which has been moving since July 2011.

Such testing did not happen yet and it means that possibly we will witness another little move up of the ratio (and a combination of moving higher on the SP500 and/or moving lower for Gold) before probably resuming the downward trend. Overbought situation.



Mr. Maggioni has been working in the financial markets for the last 11 years covering different roles and working in tier 1 consulting companies and banks worldwide.

In recent years his studies have been focused on the psycho-emotional aspects of trading and how those aspects have an impact on traders' behavior.

Before starting this venture, he was head of a hedge fund desk at HSBC Private Bank in Monaco and before that he was employed at Credit Suisse Asset Management (CSAM) in Zurich covering the in-house single manager hedge funds.

Most of his experience in hedge funds was gained while working in a Swiss family office where he was in charge of the research and analysis as well as due diligence for US and European hedge funds. He also performed quantitative analysis and portfolio construction for several funds advised by the family office.

Prior to that he worked as an external consultant for KPMG Financial Services in the Milan office. In 2002 he has been hired by Ernst & Young LLP, San Francisco as auditor for hedge funds, auditing large single funds and fund of funds. In 2000 he joined Ernst & Young in Milan as an auditor for mid-sized companies.

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Useful Links:

European Central Bank: www.ecb.int
Bank for International Settlements: www.bis.org
International Monetary Fund: www.imf.org
Federal Reserve: www.federalreserve.gov
US CFTC www.cftc.gov

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